

The North American Industry Classification System

An extremely important change is about to occur. A new profiling system that classifies the nation's businesses is about to be implemented, and it will have a profound impact on the manner in which Utah's economy and its businesses are described. The North American Industry Classification System (NAICS) is not only a dramatic change from the current Standard Industrial Classification (SIC) system, it also generates impacts that will affect Utah's business and education communities, raising issues that must be addressed legislatively.

The federal government is the driving force behind this change, spearheaded by the Bureau of Labor Statistics and the Census Bureau. It is a federally-mandated change; one we cannot avoid if we expect Uncle Sam's dollars to keep flowing. But let's face it; our economy has changed. We are not the same nation that prospered with a manufacturing foundation that relied upon relatively unskilled but plentiful labor that worked in a mass-production environment. Technology development and the distribution of information is the new face of the American economy. This foundation relies upon a skilled and educated workforce functioning outside a mass-production environment. With this new economic emphasis, NAICS becomes a modern tool for economic profiling.

The change begins now, and the transition window is limited. Its first effect will be felt in 2002 when NAICS becomes the dominant industry classification system measuring the economy's economic growth. Our evaluation of the economy will look different, and the picture painted will require an adjustment and a wiping away of old stereotypes. Prepare for an adjustment!

What's the Big Deal?

The big deal is that changing to NAICS presents a whole new picture of the economy. It is a complete break from the familiar SIC system, and that break is so thorough that the systems are incompatible. The industrial profiling of our economy will be so different that our reservoir of historical data most likely becomes obsolete. Total employment numbers will remain compatible, but industrial sectors are reorganized, and in many cases brand new. Therefore, historical data may become unusable when profiling industries. Businesses will have to

be re-classified, and tax breaks or favors extended to specific industries through legislative initiatives will have to be redefined. Systems that produce occupational projections that guide the education community's focus must also adjust. Any business or government agency that uses the SIC system will have to change. These are powerful issues that influence our economy, and they must be addressed.

What Does NAICS Look Like?

It is called the North American Industry Classification System because Canada, Mexico, and the United States are all adopting this as their industry-profiling system. NAICS is similar to the old SIC system in that it is a numerical-hierarchical system that moves from a level of generality to a level of detail — something similar to a family tree. But one of NAICS' distinguishing characteristics is its level of detail. Whereas the SIC system featured a four-digit level of detail, NAICS goes to a six-digit detail level; it is therefore designed to provide more detailed classifications. Also, the SIC system was known for its ten major industries, like Construction, Trade, or Services. NAICS is designed around 20 major industry sectors, many of them never identified before. Industries like Information, Professional and Technical Services, and Management of Companies are some of the new faces. Sectors like Manufacturing and Trade can still be found, but they are redefined. Manufacturing's composition under NAICS does not match its composition under the old SIC system, nor does Trade's.

The SIC system contains 1,004 industries; NAICS contains 1,170 industries. Of these, 358 were previously not recognized separately by SIC, 388 are revisions of existing industries, and 422 are unchanged. The 1,170 industries in NAICS have 565 service-related industries, while the SIC has 416 service-related industries. The increase in the number of service-related industries in NAICS correlates to the growth of service-related business activities in the U.S. economy.

Many of the new sectors comprise recognizable parts of SIC divisions, such as Mining, Construction, and Transportation. In contrast, the SIC's Services division has been fragmented to form several new sectors. Many new sectors represent combinations of pieces from more than one SIC division. For example, the new Information sector includes

major components from T.C.U. (broadcasting and telecommunications), Manufacturing (publishing), and Services (software publishing, data processing, information services, motion picture and sound recording). The new Accommodation and Food Services sector brings together the lodging industry from SIC's Services division, and joins it with the eating and drinking places industry from Retail Trade. Together, this new sector provides a better profile of the leisure and travel industry.

With NAICS identifying industries at a six-digit level, the longer code accommodates the larger number of sectors and allows more flexibility in designating subsectors. It also provides for additional detail not necessarily appropriate for all three NAICS countries. The international NAICS agreement fixes only the first five digits of the code. The sixth digit, where used, identifies subdivisions of NAICS industries that accommodate user needs in individual countries. Thus, 6-digit U.S. codes may differ from counterparts in Canada or Mexico, but at the 5 digit level they are standardized.

Another change within NAICS is that business establishments will be classified according to the work done at the individual establishments. By contrast, SIC classifies worksites according to the parent company's main function. For example, Delta Airlines not only flies planes in and out of the airport, but it also operates a reservation center in Utah. Under the old SIC, the reservation center worksite was classified in the transportation sector because that's what the parent company does, even though the reservation-center employees were working in a call-center environment. Under NAICS, the reservation center will be classified as a call center, and Delta's airport operation will be classified under transportation. Another way of looking at this is that Delta's operations will be spread across several different NAICS classifications, instead of being found in one industry. NAICS will bring all call centers together into one classification, whether run by an airline, a hotel, or a department store. Another example is distribution centers, such as the Wal-Mart Distribution Center in Hurricane, Utah. Under NAICS, it will now be classified in warehousing, whereas the SIC system placed it in retail trade. Wal-Mart's stores will still be found in retail trade, but its distribution centers will be found in warehousing.

Adaptability

Another characteristic of NAICS is that the system will be reviewed and updated every five years. This is in contrast to the SIC

system, which was updated sporadically, with its last revision done in 1987. NAICS acknowledges that our economy is changing rapidly and that new industries can emerge in short order. So a five-year schedule is in place to address these changes.

Conclusion

NAICS is upon us and will result in a new profile of our economy. It will require an adjustment for any who follow the economy and make business or political decisions based upon industry profiles. The Department of Workforce Services (DWS) is the primary employment-data collector within Utah. All employment profiling and growth information rests upon this agency's information. For several years, DWS has been identifying all new and existing businesses under a NAICS classification. DWS is committed to publishing data concerning the Utah economy under the NAICS system. Starting in 2002, the transition begins, and by 2003, all DWS data will be published in a NAICS format. With this evolution, the economic profile under an SIC format will fade away, and a new picture will carry us into the future.

For more information: <http://wi.dws.state.ut.us/Naics/dwsdefault.asp>

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